

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 COME-00 DODE-00 DOTE-00 EB-11

FMC-04 INR-10 NSAE-00 RSC-01 CG-00 COA-02 DLOS-07

SWF-02 PM-07 H-03 L-03 NSC-07 PA-04 PRS-01 SP-03

SS-20 USIA-15 DRC-01 ARAE-00 AID-20 IO-14 /156 W

----- 004766

P 241315Z JUN 74

FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC PRIORITY 3466

C O N F I D E N T I A L SECTION 1 OF 2 GUATEMALA 3381

E.O. 11652: GDS

TAGS: ETRN, GT

SUBJECT: RESERVE CARGO DECREE AND DELTA/FLOMERCA PROBLEM

REF: GUATEMALA 3284 AND PREVIOUS

SUMMARY: WITH PRESIDENTIAL VETO OF RESERVE CARGO DECREE, EXACERBATION OF DELTA/FLOMERCA PROBLEM HAS BEEN AVOIDED, BUT BASIC PROBLEM REMAINS. WHILE THERE IS SLIM POSSIBILITY FLOMERCA WILL OPT FOR OCEAN SHIPPING TAX SCHEME WE THINK THIS POSSIBILITY UNLIKELY AND THEREFORE HAVE LOOKED TO POSSIBLE NEXT STEPS THAT SHOULD BE TAKEN RESOLVE BASIC PROBLE. OUR PREFERRED COURSE OF ACTION IS FOR DELTA DELAY NEGOTIATIONS UNTIL NEW FLOMERCA BOARD TAKES OFFICE IN AUGST AND THEN HINGE PROPOSAL FOR MARKET SHARING AGREEMENT UPON RECENTLY APPROVED UN CODE CONDUCT FOR LINER CONFERENCE GIVEN FLOMERCA'S RECENT REFERENCES TO UNCTAD RESOLUTIONS IN DEFENSE ITS PROTECTIVE POLICY, WE THINK SUCH TACTIC MIGHT PIN THEM DOWN. IT SHOULD BE UNDERSTOOD, HOWEVER, THAT BOTH UN SHCME AND DELTA'S ORIGINAL PORPOSAL WORK AGAINST FLOMERCA'S INTERESTS. NEGOTIATIONS WILL THUS BE DIFFICULT UNDER BEST OF CIRCUMSTANCES AND REGARDLESS OF FACT FLOMERCA APPEARS TO HAVE LEFT ITS DEBATING FLANKS EXPOSED.

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1. EMBASSY HAS OBTAINED COPY OF PRES. ARANA'S MESSAGE TO CONGRESS VETOING RESERVE CARGO LEGISLATION. MESSAGE DATED JUNE 14; ARANA THUS EXERCISED VETO AT LAST POSSIBLE MNUWT THEREBY PRAOPFETING#XRZ CONGRESS FROM OVERRIDING HIS ACTION. TEXT OF MESSAGE EXPLAINS THAT WHILE LEGISLATION WAS LAUDABLE IN ITS DESIRE PROMOTE NATIONAL MERCHANT MARINE, IT WOULD ALOS LEAD TO MONOPOLISTIC SITUATION AND THEREBY CONTRIBUTE TO SERIOUS INFLATIONARY PRESSURES ALREADY BESETTING COUNTRY. EMBASSY IS AIRPOUCHING COPY OF MESSAGE.

2. SITUATION WHICH WOULD HAVE EXACERBATED DELTA/FLOMERCA CONFLICT THUS HAS BEEN AVOIDED BUT BASIC PROBLEM REMAINS. THERE IS A SLIM CHANCE, HOWEVER, THAT PROBLEM WILL SOON BE SIDESTEPED. WE HAVE HEARD FROM GUATEMALAN CHAMBER OF COMMERCE THAT FLOMERCA OFFICIALS IN RECENT DAYS HAVE EXPRESSED RENEWED INTEREST IN CHAMBER'S PROPOSAL TO ESTABLISH MARITIME TAX ON ALL CARGOES WHICH WOULD GENERATE FUNDS NECESSARY PERMIT FLOMERCA ABANDON ITS SYSTEM OF ASSOCIATIONS WITH OTHER LINES. (SEE GUAT. 798). WHILE SUCH A SHIFT IN POLICY WOULD BE WELCOME, WE DOUBT ITS LIKELIHOOD SINCE FLOMERCA OFFICIALS IN CONVERSATION WITH EMBOFFS HAVE CONSISTENTLY OPPOSED CHAMBER PROPOSAL.

3. ASSUMING THAT DELTA/FLOMERCA PROBLEM WILL NOT BE SIDESTEPED, WHAR ARE THE NEXT STEPS THAT MIGHT BE TAKEN LEADING TO RESOLUTION. WE SEE THREE ALTERNATIVE COURSES OF ACTION. BEFORE OUTLINGING THEM, HOWEVER, SOME BACKGROUND IS IN ORDER. FLOMERCA AND ITS ASSOCIATE LINES NOW PROBABLY CARRY ABOUT 75 PERCENT OF THE IMPORT TRADE FROM THE US GULF PORTS(INCLUDING MIAMI) TO GUATEMALA. (WE ARE MAKING A MORE EXACT CALCULATION THAT SHOULD BE FINISHED IN FEW DAYS). LOOKING ONLY AT DETLA'S PARTICULAR TERRITORY -THE GULF PORTS- GUATEMALAN FLAG LINES IN 1973 CARRIED 68PERCENT OF THE IMPORT TRADE. QUITE OBVIOUSLY, A 50/50 MARKET SHARING AGREEMENT AS INITIALLY PROPOSED BY DELTA HAS NO ATTRACTION TO FLOMERCA; IT IS MERELY AN INVITATION FOR FLOMERCA TO SURRENDER A PORTION OF ITS CURRENT TRADE. NO TECHNICAL ASSISTANCE SCHEMES THAT MIGHT BE INCLUDED IN AN AGREEMENT WILL BLUR THIS FACT. FOR THIS REASON, FLOMERCA PRESIDENT MARTINEZ IN HIS APRIL 9 LETTER TO CLARK INVITED DELTA

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TO DEMONSTRATE WITH "FIGURES AND NUMBERS WHAT WOULD BE THE BENEFIT(OF AN AGREEMENT) FOR FLOMERCA". IT CAN'T BE DONE.

4. THESE FACTS HAVE LONG BEEN UNDERSTOOD BY BOTH FLOMERCA AND DELTA OFFICIALS. THE MORE CONCILIATORY STANCE ADOPTED BY FLOMERCA IN MARCH (WHEN IT AGREED TO GRANT WAIVERS FOR CARGO CARRIED BY DELTA AND TO RESUME NEGOTIATIONS) WAS THE RESULT OF AN UNDERSTANDING, ON THE PART OF MARTINEZ AND

FLOMERCA MANAGER MIRON, OF POLITICAL REALITIES. SUCH UNDERSTANDING CAME FROM CONVERSATION WITH EMBOFFS. SOME TIME AFTER THAT CONVERSATION, HOWEVER, MARTINEZ AND MIRON APPARENTLY DECIDED THAT THEY TOO HAD SOME POLITICAL AMMUNITION THAT HAD NOT YET BEEN EXPENDED. THIS AMMUNITION CONSISTED OF THE UNCTAD RESOLUTIONS ON THE DEVELOPMENT OF MERCHANT MARINES BY LDCS, WHICH THEY APPARENTLY THOUGHT BOUND THE USG. IT WAS PROBABLY WITH THAT THOUGHT IN MIND THAT IN RESPONSE TO A FURTHER COMMUNICATION FROM DELTA THEY WROTE THEIR APRIL 9 LETTER REVERSING THEIR CONCILIATORY STANCE.

5. IT IS AGAINST THIS BACKGROUND THAT OUR TACTICS MUST NOW BE CHARTED. ANOTHER FACTOR TO BEAR IN MIND IS THE QUESTION OF WHETHER MARTINEZ AND MIRON WILL STAY WITH FLOMERCA AFTER LAUGERUD ADMINISTRATION TAKES OFFICE. WHILE WE DO NOT HAVE THE ANSWER TO THAT QUESTION WE WOULD GUESS THAT MARTINEZ AND MIRON WILL STAY ON THE JOB AT LEAST UNTIL AUGUST, FOR IT IS THEN THAT ANNUAL ELECTION OF BOARD MEMBERS TAKES PLACE AND GIVEN THE MANY TASKS THAT PRESS UPON ANY NEW ADMINISTRATION IT SEEMS UNLIKELY THAT LAUGERUD WOULD BRING FORWARD THE SCHEDULED AUGUST ELECTIONS.

NOTE BY OC/T: TEXT AS RECEIVED.

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ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 COME-00 DODE-00 DOTE-00 EB-11

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SS-20 USIA-15 DRC-01 ARAE-00 AID-20 IO-14 /156 W

----- 004858

P 241315Z JUN 74

FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC PRIORITY 3467

C O N F I D E N T I A L FINAL SECTION OF 2 GUATEMALA 3381

6. ALTERNATIVE COURSE OF ACTION NUMBER ONE WOULD BE TO TURN MARTINEZ' REFERENCES TO UNCTAD AGAINST HIM. WHETHER THROUGH IGNORANCE, OVERSIGHT OR PURPOSEFUL SELECTION OF FACTS, MARTINEZ

DID NOT BRING UP TO DATE HIS PORTRAYAL OF THE NEW INTERNATIONAL GUIDELINES. THE UNCTAD DEBATES HAVE NOW TERMINATED IN THE UN CODE OF CONDUCT FOR LINER CONFERENCES WHICH, AMONG OTHER THINGS, ADOPTS A 40-40-20 CARGO SHARING PRINCIPLE. WHILE WE ARE AWARE THAT THE USG VOTED AGAINST THE CODE OF CONDUCT AND HAS NOT RATIFIED IT (AND FOR THIS AND OTHER REASONS WOULD NOT FORMALLY INITIATE BILATERAL NEGOTIATIONS LEADING TO AN AGREEMENT UNDER THE CODE), WE BELIEVE THAT DELTA, ACTING ON ITS OWN INITIATIVE CAN TURN THE CODE TO ITS OWN ADVANTAGE. WE SUGGEST THAT DELTA BEGIN NEGOTIATIONS WITH MARTINEZ BY TRACING DEVELOPMENTS FROM THE POINT DESCRIBED IN HIS APRIL 9 LETTER TO THE RECENTLY-ADOPTED CODE OF CONDUCT AND THEN ANNOUNCE ITS WILLINGNESS TO ACCEPT THE UN APPROVED 40-40-20 CARGO SHARING SCHEME. IN A PHRASE, MARTINEZ AND MIRON POSSIBLY CAN BE HOIST ON THEIR OWN PETARD. THEY WOULD PROBABLY ATTEMPT TO COUNTER WITH THE ARGUMENT THAT THE 40-40-20 PRINCIPLE APPLIES ONLY TO GENERAL RATHER THAN TO RESERVE CARGO BUT WE DOUBT THAT THIS THESIS WOULD HOLD WATER AFTER CAREFUL STUDY ON THE UN CODE. THIS COURSE THUS CONTEMPLATES DELTA TAKING QUICK ACTION TO CATCH MARTINEZ OFF GUARD AND SETTLING FOR A MARKET SHARING AGREEMENT THAT GIVES THEM 40 PERCENT RATHER THAN 50PCT. THE COURSE FITS

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NICELY WITH WHAT WE UNDERSTAND TO BE CLARK'S TRAVEL PLANS; THE LOCAL DELTA REPRESENTATIVE HAS INFORMED US THAT CLARK WILL BE IN GUATEMALA MID-JULY AND HAS ASKED FOR AN APPOINTMENT WITH MARTINEZ. THE DIFFICULTY WITH THE COURSE IS THAT IF MARTINEZ AND MIRON KNOW THEY ARE NOT GOING TO STAY ON IN FLOMERCA THEY CAN STALL THE NEGOTIATIONS (AND INDEED MAY FEEL UNABLE TO ENTER INTO SERIOUS TALKS). IN THAT EVENT THE NEW OFFICIALS OF FLOMERCA WOULD HAVE HAD TIME TO DIGEST DELTA'S STRATEGY AND COULD DISOWN THE APRIL 9 LETTER AND THE UNCTAD THEME BY DECLARING THAT GUATEMALA DOES NOT PLAN TO RATIFY THE CODE BECAUSE 40-40-20 SIMPLY IS NOT IN GUATEMALA'S INTERESTS IN THE PRESENT CIRCUMSTANCES OF A FAIRLY DEVELOPED MERCHANT MARINE. IN THAT EVENT DELTA WOULD BE BACK TO SQUARE ONE AND WOULD HAVE SUFFERED THE PSYCHOLOGICAL DEFEAT OF REDUCING ITS DEMANDS FROM 50PCT TO 40 PCT WITHOUT RECEIVING A QUID PRO QUO.

7. THE SECOND COURSE OF ACTION, OBVIOUSLY, IS FOR CLARK TO POSTPONE HIS TRIP UNTIL AFTER THE NEW FLOMERCA BOARD TAKES OFFICE. IN NEGOTIATIONS WITH THE NEW BOARD DELTA WOULD ATTEMPT TO MAKE THE SAME PLOY INVOLVING THE UN CODE. IF MARTINEZ AND MIRON ARE STILL WITH FLOMERCA THEY CAN POSSIBLY BE BROUGHT TO AN AGREEMENT FOR THEY WILL NOT HAVE THE OPTION OF STALLING. IF THERE IS A COMPLETELY NEW BOARD, THE UNCTAD THEME CAN BE DISOWNED, AS NOTED ABOVE, BUT IT IS MORE LIKELY THAT THEY WILL BE CAUGHT OFF GUARD SINCE THEY WILL NOT HAVE HAD THE BENEFIT OF WATCHING DELTA SPRING THE PLOY ON THE OUTGOING BOARD. IF THEY DO DISOWN THE UNCTAD THEME, DELTA IS IN NO WORSE POSITION THAN IF IT HAD STARTED

NEGOTIATIONS WITH MARTINEZ AND THE OLD BOARDM

8. THE THIRD COURSE IS SIMPLY FOR DELTA TO INSIST UPON ITS INITIAL OFFER OF A 50/50 MARKET SHARING AGREEMENT WITH SOME TECHNICAL ASSISTANCE. AS NOTED, MARTINEZ AND MIRON UNDERSTAND POLITICAL REALITIES AND THE NEW BOARD, IF THERE ARE CHANGES, CAN BE QUICKLY EDUCATED. WE BELIEVE, THEREFORE, THAT FLOMERCA WOULD EVENTUALLY BACK DOWN UNDER PERSISTENT DELTA PRESSURE. IN THE MEANTIME, HOWEVER, A GREAT DEAL OF ILL WILL BE GENERATED. NOW ONLY WOULD THAT ILL WILL MOST CERTAINLY SPILL OVER ON THE USG AND AFFECT OTHER U.S. PRIVATE INTERESTS BUT IT WOULD PROBABLY MAKE DELTA'S FUTURE ROLE IN GUATEMALA AN UNCOMFORTABLE ONE.

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9. AMONG THESE COURSES, WE WOULD RECOMMEND THE SECOND. HOWEVER, THE DIFFERENCES BETWEEN THE FIRST AND SECOND ARE SLIGHT ENOUGH THAT CLARK'S TRAVEL PLANS COULD BE A LEGITIMATE DECIDING FACTOR. BEFORE CONCLUDING WE WOULD NOTE THAT THE PROPOSED STRATEGY SUMS TO A NO WIN GAME FOR FLOMERCA. IT WOULD BE FINANCIALLY HURT BY EITHER THE UN OR THE DELTA CARGO SHARING SCHEME. POSSIBLY, IT WOULD BE HURT TO THE POINT WHERE ITS COMMERCIAL VIABILITY IS EVENTUALLY THREATENED. CONCEIVABLY, IF SUCH A POINT SHOULD BE REACHED, THERE MIGHT BE A NATIONALIST BACKLASH DIRECTED IN PART, AT LEAST, AGAINST THE USG. BUT IN LARGE MEASURE AGAINST DELTA AND OTHER U.S. PRIVATE ENTERPRISES UNTIL THAT UNCERTAIN POINT, HOWEVER, THE PURSUIT OF THE RECOMMENDED TACTIC WOULD HOPEFULLY AVOID OUR FURTHER OPEN INVOLVEMENT OF THE USG IN THE ISSUE, AND CONFRONTATION WITH THE NEW ADMINISTRATION OVER AN ISSUE OF THIS NATURE IS SOMETHING WE OBVIOUSLY WANT TO AVOID. IN CONCLUSION, THEREFORE, WE THINK IT IS IN THE US INTEREST TO DEMONSTRATE TO DELTA THAT FLOMERCA HAS LEFT ITS FLANKS EXPOSED AND THAT AT A RELATIVELY SMALL COST IT MAY BE POSSIBLE TO BRING THEM TO AN AGREEMENT.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESIDENTIAL VETO, STEAMSHIP LINES, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CollinP0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974GUATEM03381
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740165-0604
From: GUATEMALA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740620/aaaaaqys.tel
Line Count: 264
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: GUATEMALA 3284 AND PREVIOUS
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 16 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 SEP 2002 by kelleyw0>; APPROVED <14 FEB 2003 by CollinP0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RESERVE CARGO DECREE AND DELTA/FLOMERCA PROBLEM
TAGS: ETRN, GT, FLOMERCA, DELTA STEAMSHIP CO
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005